Hormell, Orren Chalmer
Municipal accounting and reporting

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Municipal Accounting and Reporting

BY

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Municipal Accounting and Reporting

An Address before the Maine State Board of Trade at Lewiston, Maine, March 11, 1915

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AND

A Form for the Classification of Revenues and Expenditures in a Town Report

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AN ADDRESS BEFORE THE MAINE STATE BOARD OF TRADE AT LEWISTON, MAINE, MARCH 11, 1915

MUNICIPAL ACCOUNTING AND REPORTING

The practical goal of present-day municipal progress is the adoption by our cities and towns of the efficient methods employed by successful private business. One of the first and most essential steps toward that goal is the establishment of an adequate system of accounting and reporting.

The government of our municipalities until recently has been considered the one outstanding failure in the American system. Inefficient, archaic business methods have been so common that the citizens in general have complacently acquiesced in them as in the inevitable, to be expected and endured along with measles and taxes.

But we are now entering upon a new era. These early years of the twentieth century are witnessing a municipal renaissance. In its earlier development this municipal awakening had for its more prominent aspect reform in the organization of government. The movement for government by commission swept the country from New England to California. According to its optimistic proponents, the commission form was to be a panacea for our municipal ills. Recent experience, however, has clearly indicated that reform in organization alone cannot be depended upon to produce efficient government. It was soon discovered that many commission-governed cities, together with cities of the older type, tolerated business methods discarded a generation ago by successful private corporations. The realization of this fact gave rise to the second great force, which is now energizing American municipal progress,—the efficiency movement. This remedy has the practical advantage of being limited in its application to no one form of government.

The vital practical aim of the efficiency movement is to apply modern business methods to municipal administration. The effi-

ciency of the management of a cotton mill is tested by complete and accurate data concerning every item of revenue and cost. An expert manager of a cotton mill can, I am told, estimate to within one one-hundredth of a cent the cost per yard of the production of any given sample. Likewise exact and complete information concerning the financial condition of the municipality is indispensably necessary as the foundation for the adoption of modern business methods. The first step in securing such information is the installation of a system of municipal auditing.

The value of a municipal audit is recognized today by many of the leading cities and towns throughout the country. Some sixty cities and towns in Massachusetts have already availed themselves of the services of the expert accountants furnished by the State Bureau of Statistics. In Maine, Bangor and Old Town within the last year at their own expense have employed expert accountants to give complete and exact information concerning their financial condition. The greatest value of an audit of municipal accounts is not to discover misappropriation of funds or malfeasance in office—which is obviously worth while —but to pave the way for the installation of an adequate system of accounting and reporting. An editorial in a Maine paper within the last year stated that $1,500 had been wasted upon expert accountants to discover that fifteen cents had been misapplied. The statement was entirely beside the point. If the expenditure of $1,500 resulted in the installation of business methods of book-keeping and reporting, it certainly was an excellent investment. The customary method of reporting business transactions and drawing up the annual reports fails completely to furnish the two essentials for efficient government: first, a guide for municipal business; and second, exact information to the citizens. In democratic America we must rely upon popular control to make and keep our government efficient; and intelligent popular control is impossible without exact information.

An examination of the reports of our cities and towns convinces one that in most cases they are intended for printing only,—not to be read, much less to be understood. It would require the patience of Job and more than the skill of an expert accountant to extract from the average annual report complete and correct information concerning the business transactions of the year and the financial condition of the municipality. The would-be businesslike official or the conscientious information-seeking citizen is to be pitied who tries to obtain useful information from the annual reports of the average city or town. A single experience is sufficient to convince one of the hopelessness of attempting to acquire intelligent information from the minutely itemized schedules of receipts and payments. Such schedules are often merely the unintelligible transcripts of account books with no summaries and no classifications.

The custom is surprisingly prevalent for the officials entrusted with the town's business to keep no summarized accounts showing the relation of expenditures to available revenues. To keep the total expenditures within the total revenues they trust to luck or blind fate rather than to systematic accounting. During the fiscal year ledger accounts have been of no practical value as a guide to business transactions. The report at the end of the year is equally valueless as a guide to popular control.

To illustrate, let us examine a typical report of one of our smaller Maine cities. Let us learn from it the cost of the general administration. We find the salaries of the several city officials recorded under twelve different headings, but no summaries or totals are given. The running expenses of the several officials are relegated to the catch-all of the city report,—the contingency account. If patience and time permit, we extract from the miscellaneous mass the items which obviously belong to the several officials, only to discover that a larger amount is hopelessly intermingled with other accounts under such unintelligible items as "supplies" and "services." It is evident that

from the report no amount of effort can bring to light the actual cost of maintaining the administrative offices. Let us turn to the school account. We find the name of every teacher and the amount received by each, the name of every book concern and supply house from which materials were purchased, but there is no indication as to the classes of "supplies" purchased, and no totals are given. Interspersed here and there among the book concern and supply house items are various miscellaneous items, such as "theatre hire" and "carfare." Several pages further on, following the poor account and highway report, is discovered the item of "text-books." The presence of the names of well-known school-book firms is the only indication that the "text-books" are for school purposes rather than for the use of the highway department. Turning to the contingency fund, we find nineteen items of "supplies;" other items, such as "services," "labor," and "automobile hire" appear. And we are at loss to know what proportion of this $5,000 jumble should be charged to the school account. What did the city schools cost the tax-payers? It cannot be ascertained from the report. Likewise, we may search in vain to discover the cost of health administration. We search the report and for our pains discover J—— D—— received $1.00 for burying a dead cat; an item a few lines below states that Reverend S—— received twenty-five cents. Whether or not the twenty-five cents was the clergyman's fee for officiating at the funeral of the cat is nowhere made evident. The report as a whole discloses how impossible it is to discover the cost of any one service.

What is the effect of this haphazard, slipshod method (or lack of method) of municipal accounting and reporting? In the absence of adequate information concerning municipal finances and municipal business, many cities and towns have continued year after year to permit the expenditures to exceed the revenues. The resulting deficit is often met by issuing demand notes; and frequently such demand notes are later merged with

notes or bonds issued legitimately for permanent improvements. And thus without the public in general realizing it, the future is mortgaged to meet the present-day running expenses. Furthermore, the customary report fails to give a complete statement of municipal debt. There is usually no separate sinking fund account; the trust funds are often hopelessly intermingled with the general funds of the city. Under such a loose system one Maine city carries as an asset $40,000 of uncollected and uncollectable poll taxes; another city has charged to a trust fund account the cost of certain improvements, when, in fact, the fund had long since been used for other purposes. The amount had actually been transferred to the fund from the tax revenues of the current year. This was made possible by delaying till the following year the payment of certain bills already due. Such juggling of figures and falsification of reports can be prevented only by the installation of accounting and reporting systems comparable with those used in private business.

An investigation a few years ago by the Massachusetts Bureau of Statistics showed that in eighty-two cities and towns the indebtedness for the payment of which no provision had been made amounted to over $1,120,000, of which nearly $270,000 was in the form of demand notes. It was further found that a popular custom was to deplete trust funds to meet current needs. Such a practice lowered the current tax rate or permitted improvements without increasing the tax rate,—a result which served as an asset for campaign purposes only. It was further revealed that many of the loans were issued to meet current expenses. They originated often in the form of temporary loans in the anticipation of taxes, which, instead of being paid from the current assessment, were in whole or in part refunded year after year and became a part of the permanent indebtedness.*

*Charles F. Gettemy, Recent Legislation Relating to Municipal Indebtedness in Massachusetts, in *The National Municipal Review*, October, 1914.

Massachusetts some six years ago resolutely set herself to the task of placing her cities and towns upon a firm financial basis. She recognized that the first essential was complete and accurate information. Today at the request of the city or town the Bureau of Statistics audits the accounts and installs a scientific accounting system. As a further means of encouraging the cities and towns to adopt a businesslike accounting and reporting system, the Bureau of Statistics furnishes blanks provided for "uniform returns giving detailed statements of all receipts classified by sources and all payments classified by objects...; a statement of public debt, showing the purpose for which each item of debt was created and the provision made for the payment thereof; and a statement of assets and liabilities at the close of the fiscal year." In such a manner Massachusetts provided for the procuring of facts necessary for efficient municipal business administration.

Her next step was to require the municipalities to make intelligent use of the facts. For example, temporary loans made in anticipation of taxes must be paid within a year and cannot be renewed. Issuing of notes payable on demand is made illegal. Sinking funds (with the ever-present temptation to misappropriate) may no longer be established. Permanent indebtedness must be met by the serial method. Debts incurred for any purpose must be entirely liquidated within a specified period; the longest period permitted is thirty years. The habitual expenditure of amounts greater than the annual revenue is to be eliminated by the provision that no department shall incur liabilities in excess of the appropriation made for the use of such department, except in the case of extreme emergencies and then only by two-thirds vote of the proper municipal authorities.

A system of accounting and reporting similar to that of Massachusetts is recommended by the United States Census Bureau and already has been installed in a large number of cities throughout the country. Several states, including Massachu-

setts, New York and Ohio, have provided for state supervision of municipal accounting and reporting. Some system of state supervision is certainly desirable for Maine. Whether such supervision is to be vested in a new state commission of accountancy, similar to the Massachusetts Bureau of Statistics, or in some existing department, such as that of the auditor or treasurer, should be determined in the light of Maine conditions and Maine experiences. The movement, however, to adopt, independently and upon their own initiative, a scientific system of accounting and reporting is gaining headway among the cities and towns of Maine. Bangor and Old Town, in addition to having their accounts audited by experts, have installed improved modern systems of accounting and reporting. Portland, under Mayor Curtis, recently began to issue monthly financial statements. Gardiner has arranged its annual report according to the standard classification.

The probable value of the reform to Maine cities and towns may be estimated from the experience of municipalities where the system has been most fully tried. Officials of such municipalities maintain that a material saving has resulted from the fact that exact information concerning available funds for departmental use may be had at any time. Furthermore, systematic accounting provides a basis for systematic budget-making. Officers entrusted with drawing up the budget may now forecast future expenditures in terms of work planned. Budget estimates, based upon accurate facts, become a reliable financial chart for the guidance of the several departments during the ensuing year.

The selectmen of the town of Swampscott, Massachusetts, in their annual report of December, 1914, made the following statement regarding their experience with the reform:

"The present system of town accounting was installed February 1, 1911, since which time the budget each year is made up with the same classification, and is easily followed for compara-

tive purposes. The system itself enables the selectmen to systematically study the various expenditures, and, with the trial balances, published each month, the department heads, as well as the public, can follow the expenditures. The audit each six months by state officials is a healthy procedure, and their yearly balance sheet conclusive. * * * We recommend the system to all our sister towns who have not adopted it."

The value of the uniform accounting and reporting system undoubtedly will be enhanced with the increase in the length of time in which it has been applied. A uniform system, calling the same object by the same name and placing the same items of expense under the same classification, will furnish comparable statistics of undoubted value. By means of such statistics the comparative cost of similar services in municipalities of equal populations and like conditions may be obtained. When the citizens of the town of E—— discover by comparing trustworthy reports that, while the police protection in their town costs $2.00 per capita, the police protection in the town of B—— costs only thirty-three cents per capita, they will immediately investigate their police department. When the citizens of the city of X—— learn through uniform reports that the city of Y——, out of each $100 of expenditures, pays $36 for school purposes, while the city of X—— pays only $21, they take a more intelligent interest in the city's business.

The value of the reform to the State of Maine depends largely upon its widespread adoption. The installation of the system of accounting and reporting adopted by Bangor may not be at present practicable or even possible in a large number of towns of Maine. But if the whole step cannot be taken at once, we should not be deterred from making a beginning. At least a form for departmental balance sheets should be devised and the cities and towns should be required to incorporate it in their reports at the end of the customary detailed departmental statements.

The following is an example of such a balance sheet taken from a Massachusetts town report:

SUMMARY OF HIGHWAYS AND BRIDGES

	Appropriation	Transfers	Totals	Expenditures	Balance
Highways and bridges	$18,000 00		$18,000 00	$17,966 79	$33 21
Sidewalk and curbing	1,500 00	$44 75	1,544 75	1,544 75	
Street water and oiling	5,000 00		5,000 00	4,478 41	521 59
Street lighting	11,000 00	36 38	11,036 38	11,036 38	
Street construction	1,600 00	23 43	1,623 43	1,623 43	
Redington St. widening lines	600 00		600 00	600 00	
	$37,700 00	$104 56	$37,804 56	$37,249 76	$554 80

The questions urgently demanding answers are: Can the citizens of the State of Maine as a matter of practical business afford longer to maintain the haphazard business methods still existing in many cities and towns, with the resulting cost to taxpayers and lack of information necessary for popular control? And are the cities and towns of Maine ready for the adoption of a uniform scientific system of accounting and reporting as an essential step in raising the standard of municipal business to the high level of efficiency found in private business?

A FORM FOR THE CLASSIFICATION OF REVENUES AND EXPENDITURES IN A TOWN REPORT

The following is a form for the classification of revenues and expenditures in the annual town report. It is a modification of the Massachusetts system adapted to the conditions existing in Brunswick, Maine, a town having a population of about seven

TOWN OF

REPORT OF REVENUES

Title of Account	Appropriation from Taxes	Revenue from other sources	Total Revenue
GENERAL GOVERNMENT			
I. Selectmen			
a. Salaries			
b. Expenses			
II. Auditors			
a. Fees			
b. Expenses			
III. Treasurer			
a. Salary			
b. Expenses			
IV. Town Agent			
a. Salary			
b. Expenses			
V. Collector			
a. Salary			
b. Expenses			
VI. Clerk			
a. Salary			
b. Expenses			
VII. Attorneys			
a. Fees			
b. Expenses			
VIII. Town Building			
a. Lights			
b. Fuel			
c. Janitor Service			
d. Insurance			
e. Repairs			
f. Supplies			
g. Miscellaneous			
IX. Election and Registration			
a. Wages			
b. Miscellaneous			
X. Printing			
a. Town Report			
b. Other Items			
Total for Department			

thousand. This form was drawn up in connection with a study of the financial condition of Brunswick, made by the students in the municipal government course in Bowdoin College.

BRUNSWICK

AND EXPENDITURES, 1914

Current Expenses	Permanent Improvements	Total Expenses	Surplus	Deficit

The following titles of account should be arranged according to the foregoing form.

PROTECTION OF PERSONS AND PROPERTY

I. Police Department
   a. Salary of Chief
   b. Salaries of Others
   c. General Expenses
   Total
II. Fire Department
   a. Salaries and Wages
   b. Horses and Care of Same
   c. Auto Maintenance
   d. Repairs and Renewals
   e. Other Expenses
   Total
III. Inspector of Buildings
   a. Salary
   b. Expenses
   Total
IV. Militia
   a. Armory Expenses
   b. Other Expenses
   Total
V. Moth Extermination
   a. Salaries and Wages
   b. Other Expenses
   Total
VI. Other Protection
   a. Dog Officer
   b. Damages by Dogs, etc.
   c. Miscellaneous
   Total
Total for Protection of Persons and Property

HEALTH AND SANITATION

I. Health
  a. Salaries of Board
  b. Expenses of Board
  c. Salary of Milk Inspector
  d. Expenses of Milk Inspector
  e. General Expenses
  Total
II. Sanitation
  a. Cleaning Streets, Dumps, etc.
  b. General Expenses
  Total
Total for Health and Sanitation

HIGHWAYS

I. Road Commissioner
  a. Salary
  b. Expenses
II. Improvement and Repair of Town Highways
  a. In Village
  b. Outside of Village
III. State Aid Roads
IV. Removal of Snow
V. Sprinkling
VI. Sidewalks
VII. Bridges
VIII. Drains
IX. Miscellaneous
Total for Highways

STREET LIGHTING

I. Street Lights, Maintenance of
II. New Arc Lights
Total for Street Lighting

POOR RELIEF

I. Poor in the House
   a. Salaries
   b. Labor
   c. Fuel and Light
   d. Water
   e. Provisions
   f. Insurance
   g. Miscellaneous
II. Poor out of the House
   a. Relief
   b. Poor of Other Towns
   c. Miscellaneous

Total for Poor Relief

SOLDIERS' BENEFITS

I. Aid for Old Soldiers and Families
II. Funerals of Old Soldiers

Total for Soldiers' Benefits

SCHOOLS

I. School Committee
   a. Salaries
   b. Expenses
II. Superintendent
   a. Salary
   b. Expenses
III. Truant Officers
   a. Salaries
IV. High School
   a. Salaries
   b. Text-Books and Supplies
   c. Fuel and Light
   d. Janitors
   e. Maintenance and Repairs
   f. Insurance

V. Common Schools
[Items as above under High School]
VI. Domestic Science
VII. Manual Training
VIII. Unusual Expenses
Total for Schools

LIBRARY

I. Salaries
II. Maintenance
III. Books
Total for Library

WATER SUPPLY

I. Water for Town Purposes
II. New Hydrants
Total for Water Supply

INTEREST

I. On Temporary Loans
II. On Town Bonds
III. On Trust Funds Used
IV. Other
Total for Interest

TOWN DEBT

I. Requirements
a. For Temporary Loans
b. For Bonds
Total for Town Debt

TAXES

I. Discount on Taxes
II. Abatement of Taxes

III. State Tax
IV. County Tax
Total for Taxes

UNCLASSIFIED ITEMS

I. Care of Mall
II. Band Concerts
III. Memorial Day
IV. Cemeteries
V. *Contingent
Total for Unclassified Items

GRAND TOTAL

*Note: Under Contingent Account nothing should be included except such emergency expenses as do not logically belong to any department. A still better practice is to discard entirely the Contingent Account and substitute a Reserve Fund Account from which transfers may be made to meet emergencies.

BUREAU OF RESEARCH IN MUNICIPAL GOVERNMENT

A Bureau for Research in Municipal Government was established at Bowdoin College, September, 1914. The primary purpose of the bureau is to furnish adequate facilities for the training of students in the use of first-hand materials relating to towns and city governments. A second aim is to supply information to the authorities and citizens of Maine towns and cities.

During this college year the bureau has made collections relating to a number of municipal problems. The most important of these collections are: city charters, illustrating especially the commission, manager, and responsible executive types of city government; ballots and ballot laws used in typical cities, from a majority of the states of the Unon; civil service laws and ordinances applying to typical cities in the several states; documents relating to public utilities control and regulation; and materials on municipal accounting, budget-making and reporting.

A comparative study of the finances of the town of Brunswick, covering a period of ten years, was made; and a form for the classification of the revenues and expenditures in the town report was drawn up. The collection of ballots was loaned to the special committee on ballot reform of the Maine legislature. The collection of city charters was furnished to a committee of the Augusta Board of Trade engaged in preparing charter amendments for the city of Augusta. And literature relating to the town manager plan was furnished to the Board of Trade of the town of Sanford.

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